



U.S. Department of Justice

*United States Attorney
Eastern District of New York*

*271 Cadman Plaza East
Brooklyn, New York 11201*

FOR IMMEDIATE RELEASE

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Contact:

**Robert Nardoza
United States Attorney's Office
(718) 254-6323**

PRESS RELEASE

TWO FORMER CREDIT SUISSE BROKERS INDICTED FOR SECURITIES FRAUD, WIRE FRAUD, AND CONSPIRACY IN CONNECTION WITH A FRAUDULENT SCHEME TO SELL MORTGAGE-BACKED COLLATERALIZED DEBT OBLIGATIONS

Debt Obligations Were Backed by Fixed-Income Assets, Including Subprime Mortgages

A superseding indictment was unsealed today in federal court in Brooklyn charging JULIAN TZOLOV and ERIC BUTLER, former brokers at Credit Suisse Securities (USA) LLC ("Credit Suisse") with conspiracy, securities fraud, and wire fraud. The superseding indictment alleges that the defendants schemed to obtain higher sales commissions by selling auction rate securities ("ARS") backed by mortgages to Credit Suisse clients who, in fact, had placed orders to buy ARS backed by student loans.¹ The defendants concealed their scheme by falsifying the names of the ARS the clients bought and otherwise misleading the clients into believing they had bought ARS backed by student loans. When the mortgage-backed ARS market failed, the clients lost their money.

BUTLER is scheduled to be arraigned this afternoon before United States Magistrate Judge Ramon E. Reyes, Jr., at the United States Courthouse, 225 Cadman Plaza East, Brooklyn, New York. The charges were announced by Benton J. Campbell, United States Attorney for the Eastern District of New York, and Mark J. Mershon, Assistant Director-in-Charge of the Federal Bureau of Investigation, New York Field Division. The criminal case has been assigned to United States District Judge Jack B. Weinstein.

According to the superseding indictment, TZOLOV and BUTLER were, until September 2007, brokers who ran Credit Suisse's Corporate Cash Management Group, a division that helped its clients manage excess corporate cash holdings. Beginning in November 2004, the

¹ The charges in the superseding indictment are merely allegations, and the defendants are presumed innocent unless and until proven guilty.

defendants approached various companies (“the companies”) that had banking relationships with Credit Suisse to pitch the benefits of investing cash in ARS backed by student loans, typically Federal Family Education Loan Program loans guaranteed by the U.S. Department of Education. These ARS were sold, and the interest paid on the securities was set, at auctions that occurred every 28 days. In their sales presentations, the defendants represented that the student loan-backed ARS were very low-risk investments guaranteed by the United States government; that the market for the securities was very liquid; and that the risk of an auction failing was minimal because of the federal government guarantee. As a result, a number of the companies agreed to invest money in ARS backed by student loans.

Subsequently, without the knowledge or consent of the companies, the defendants began to use the companies’ funds to purchase higher-yield, mortgage-backed collateralized debt obligations, or “CDOs.” CDOs are asset-backed products built from a portfolio of fixed-income assets, including mortgages, subprime mortgages, and second mortgages. Mortgage-backed CDOs traded as auction rate securities (“CDO-ARS”) are purchased through an auction process on the same 28-day cycle as the ARS backed by student loans. However, because of their greater risk, CDO-ARS provided a higher yield and, as a result, the commissions paid to the defendants by Credit Suisse were far greater for sales of CDO-ARS.

In order to conceal their scheme, the defendants sent the companies e-mails in which they, or their assistants, falsified the names of the products bought, sold, and held by the companies, falsely creating the appearance that the companies had invested in student loan-backed ARS. In some instances, the fraudulent e-mails listed the CDO-ARS products with the term “CDO” removed from the name. In other instances, the e-mails included the term “student loan” or “SL” in the name of a CDO-ARS product, despite the fact that the CDO-ARS had no connection whatsoever to student loans.

In approximately August 2007, the defendants’ scheme was discovered when the market for the mortgage-backed CDOs purchased by the companies collapsed and various auctions for CDO-ARS began to fail, resulting in the defendants being unable to liquidate the companies’ investments and return their money.

“The defendants’ fraudulent misrepresentations and ‘bait-and-switch’ tactics saddled investors with unknown risks they did not bargain for,” stated United States Attorney Campbell. “Those who engage in such schemes will be aggressively investigated, prosecuted, and held to account for their criminal activity.” Mr. Campbell thanked the Securities and Exchange Commission for its assistance and added that the government’s investigation is continuing.

FBI Assistant Director-in-Charge Mershon stated, “Investors who were told they were purchasing relatively low-risk securities backed by student loans were unwittingly purchasing high-risk mortgage-backed securities. For a nearly three-year period, what Tzolov and Butler sold their clients was a bill of goods. The FBI remains committed to policing the securities industry to protect investors from all forms of unscrupulous and illegal conduct.”

The securities fraud count and the two counts of wire fraud each carry a maximum sentence of 20 years' imprisonment and a \$5 million fine. The conspiracy count carries a maximum sentence of five years' imprisonment and a \$250,000 fine.

The United States Securities and Exchange Commission announced today that it has filed civil charges against both TZOLOV and BUTLER.

The criminal case is being prosecuted by Assistant United States Attorneys Greg D. Andres, Christina Dugger, John P. Nowak, and Claire Kedeshian.

The Defendants:

Name: JULIAN TZOLOV
Age: 35

Name: ERIC BUTLER
Age: 36